

Message Text

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ACTION NEA-10

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SUBJECT: FY 1977 BUDGET

REF: (A) TEL AVIV 8611 (B) TEL AVIV 8411

1. SUMMARY. FINANCE MINISTER RABINOWITZ SUBMITTED
FY1977 BUDGET TO KNESSET JAN 24. IN HIS PRESENTATION,
HE REVIEWED 1976 DEVELOPMENTS, STATED BUDGET POLICY FOR
FY1977, AND GAVE GOI FORECASTS FOR 1977 ECONOMIC
AGGREGATES. IN REVIEW OF 1976 DEVELOPMENTS, MINISTER
NOTED THAT BALANCE OF PAYMENTS CONSTRAINT WHICH HAD
DOMINATED PREVIOUS BUDGETS HAD AT LEAST BEEN STABILIZED.
IN 1976 THE CURRENT ACCOUNT DEFICIT HAD BEEN CUT BY
\$800 MILLION AND SHORT-TERM FOREIGN CURRENCY DEBT HAD
BEEN REDUCED. FOREIGN CURRENCY RESERVES HAD ACTUALLY
INCREASED BY OVER \$100 MILLION TO \$1,156 MILLION.
RABINOWITZ STATED THAT GOVERNMENT'S EXCHANGE RATE
AND CREDIT RESTRAINT WERE MAIN REASONS FOR BALANCE
OF PAYMENTS IMPROVEMENT. THE COSTS OF IMPROVEMENT
WERE, HOWEVER, HIGH INFLATION AND SLOW GROWTH. END SUMMARY.

2. FIGURES STATED IN REVIEW OF 1976 PERFORMANCE REVISED
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SOMEWHAT FROM THOSE STATED REF A. ESTIMATE OF REAL 1976
GNP GROWTH RATE REVISED DOWNWARD TO 1.3 PERCENT. PRIVATE
CONSUMPTION NOW ESTIMATED TO HAVE GROWN BY 5 PERCENT
(2.6 PERCENT PER CAPITA) AND PUBLIC CONSUMPTION TO HAVE
DECLINED BY 8.2 PERCENT. THE 1976 CURRENT ACCOUNT
DEFICIT IS NOW PLACED AT \$3.2 BILLION, AND \$800 MILLION
IMPROVEMENT OVER 1975, WITH AN INCREASE IN EXPORTS OF

15 PERCENT (INDUSTRIAL EXPORTS UP BY 28 PERCENT).

3. THE 1976 BALANCE OF PAYMENTS CURRENT ACCOUNT DEFICIT IS NOW ESTIMATED AT \$3.2 BILLION, AND \$800 MILLION IMPROVEMENT OVER 1975. THE TRADE ACCOUNT IN PARTICULAR SHOWED A REDUCTION IN THE DEFICIT OF \$560 MILLION, WITH EXPORTS INCREASING BY \$477 MILLION AND IMPORTS DROPPING SLIGHTLY. IN THE SERVICES ACCOUNT, TOURISM REVENUES INCREASED BY \$47 MILLION TO \$280 MILLION.

4. 1977 BUDGET CALLS FOR EXPENDITURES OF IL 122.5 BILLION WITH REVENUES OF IL 117.5 BILLION. NO INCREASE IN TAX RATES IS FORESEEN, AND OVERALL GOVERNMENT EXPENDITURES SHOULD REMAIN ABOUT THE SAME IN REAL TERMS. BUDGET PRIORITIES REMAIN ROUGHLY THE SAME AS IN THE 1976 BUDGET, ALTHOUGH DEFENSE SPENDING IS RELATIVELY LOWER, AT IL 41.6 BILLION, TO 33 PERCENT OF EXPENDITURES, WHILE EXPORT PROMOTION EXPENDITURES RISE FROM IL 4 BILLION TO IL 6 BILLION, A 50 PERCENT INCREASE. DEBT SERVICE PAYMENTS ARE PROJECTED AT IL 30.2 BILLION COMPARED TO IL 18 BILLION IN 1976. REVENUE ESTIMATES SHOW IL 88.6 BILLION FROM DOMESTIC SOURCES AND IL 28.8 BILLION IN FOREIGN CURRENCY RECEIPTS. THE IL 5 BILLION DEFICIT IS TO BE FINANCED BY AN ADVANCE FROM THE BANK OF ISRAEL.

5. IN THE 1977 FORECAST, THE POLICY GOALS ARE STATED AS AMELIORATION OF THE BALANCE OF PAYMENTS, CURBING INFLATION, AND GROWTH BASED ON STRUCTURAL CHANGES IN THE ECONOMY. STRUCTURAL CHANGE TOWARD EXPORT-LED GROWTH
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WILL BE ENCOURAGED BY EXPORT INCENTIVES AND A CONTINUATION OF THE CREEPING DEVALUATION POLICY. EXPORTS OF GOODS AND SERVICES ARE EXPECTED TO RISE BY 14 PERCENT, WHILE IMPORTS SHOULD RISE BY 10 PERCENT, LEAVING THE TRADE ACCOUNT DEFICIT ABOUT THE SAME AT \$1.6 BILLION. INCLUDING TRADE WITH THE ADMINISTERED TERRITORIES, HOWEVER, THE CURRENT ACCOUNT BALANCE IS EXPECTED TO DECLINE SLIGHTLY TO \$3.3 BILLION.

6. THE ECONOMY'S GROWTH RATE IS EXPECTED TO REMAIN FLAT IN 1977 WITH ONLY A 1.2 PERCENT REAL INCREASE IN THE GNP. BY COMPONENTS, BOTH PUBLIC AND PRIVATE CONSUMPTION WILL RISE AT NEAR THE ECONOMY'S GROWTH RATE, WHILE INVESTMENT WILL CONTINUE TO FALL (-5 PERCENT IN 1977 COMPARED TO -14.8 PERCENT IN 1976), WITH HOUSING SPENDING DECLINING ALMOST ONE-QUARTER IN REAL TERMS. THE DOMESTIC SAVINGS RATE, INCLUDING COMPULSORY LOANS, SHOULD DROP SLIGHTLY TO 21.9 PERCENT. INFLATION RATE IS ESTIMATED AT 25 PERCENT. WAGE

INCREASES ARE PROJECTED AT 34 PERCENT AND UNEMPLOYMENT
RATE SHOULD GO UP TO 5 PERCENT. REAL EXPORTS OF GOODS
AND SERVICES WILL RISE BY 9 PERCENT AND REAL IMPORTS
BY 4 PERCENT. POPULATION WILL GROW TO 3.65 MILLION.

7. BUDGET DOCUMENTS WITH MAIN ECONOMIC INDICATOR
FORECAST WILL BE POUCHED TO NEA/IAI.
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